

"A new benchmark now is in place that measures state economic development agencies' competitiveness – the most important factor in an agency's ability to attract capital investment and expand economic activity in the state." Kentucky ranked 6th among the states in the inaugural *Site Selection Competitiveness Award* for 2002. The Competitiveness Award is based on 10 quantifiable criteria for measuring business expansion activity.

Site Selection Magazine (May 2003)

Kentucky offers a wide range of opportunities for a profitable investment in all business sectors. Kentucky's manufacturing base has shown particularly dramatic growth during the decade of the 90s, ranking as the twelfth fastest growing manufacturing economy in the U.S., as measured by percentage change in gross state product (1993-2001). Manufacturing employment in Kentucky grew by nearly 2% from 1993 to 2002, the seventeenth highest growth rate among the fifty states, while the national rate declined by nearly 9%. As a contribution to overall Gross State Product (GSP) during this period, manufacturing's share of 25.2% (2001) gives Kentucky the third spot nationally. Kentucky has a strong industrial base of steel, aluminum, chemicals, and machinery production, driven by massive resources of water, low-cost electric power, and reasonably priced barge, rail, and truck transportation. *Site Selection* (March 2002) notes - *"As the state with the (then) third-largest automotive manufacturing economy in the country, two international airports, the United Parcel Service hub in Louisville, and some of the least expensive power available anywhere, Kentucky is already attractive to a wide range of companies and projects -- from call centers to metalworking, distribution hubs to corporate headquarters."*

To date, 22 of the Fortune 25 largest U.S. corporations have manufacturing or service facilities in Kentucky -- many have multiple plants in the state. Included are industrial giants such as General Motors, Ford Motor Company, IBM, General Electric Company, and Boeing. In addition, 22 of the top 50 global corporations also have operations in Kentucky, and foreign enterprises have developed over 330 facilities in Kentucky, providing nearly 70,000 jobs. Included are such international leaders as Toyota, Hitachi, Mitsubishi, Itochu, Alcan, TotalFinaElf, CelaneseAG and Sumitomo.

Continuing growth in automotive production facilities in Kentucky, Tennessee, Ohio, Indiana, and Illinois has created opportunities for component suppliers to serve this massive new market centrally from facilities in Kentucky. *Site Selection* (March 2002) notes that, *"Kentucky is a leading state for automobile manufacturing as well as the sector's supplier base, and a number of announcements reflect that industry strength."* Further evidence of this dramatic growth is demonstrated by the fact that over 460 auto-related facilities have located in Kentucky, providing 87,000 jobs, and helping to make Kentucky fourth in total automotive (car and truck)

production. In 2002, Kentucky was the fourth largest producer of automobiles, and fourth largest producer of trucks, in the U.S. The top-selling automobile (Toyota Camry) and truck (Ford F-Series pickup) in the world are manufactured in Kentucky, which also produces the premium American sports car (Chevrolet Corvette). Over 10 percent of all cars/trucks made in the U.S. are manufactured in Kentucky.

Kentucky enjoys significant success in other business sectors as well. As the only state to have two overnight air cargo and containerized package hubs, Kentucky is home to the \$1.1 billion cutting-edge, automated sorting facility dubbed "*Worldport*" by United Parcel Service (UPS). The largest warehousing/distribution project of the year when announced in 1998, it was completed in September 2002 – a 4 million square foot facility capable of sorting 304,000 packages per hour. Kentucky added to its success in 2001 by garnering fourth place nationally in individual job creation projects (2,100) with the development of the Citicorp Credit Services facility in Florence (*Expansion Management*/June 2002). And in 2002, Kentucky had the ninth largest job creation project with the 1,003 person location by Pella Corporation in Murray (*Expansion Management*/June 2003). In addition, FedEx will site its 335,000-sq-ft. facility in the Enterprise V Industrial Park in unincorporated Boone County, one mile from I-75/71 and 11 miles from the Greater Cincinnati/Northern Kentucky Airport. FedEx expects to employ more than 80 office and clerical employees and 300 package handlers (*Site Selection*/November 2003).

The Kentucky Cabinet for Economic Development was designated as one of the Top Ten Economic Development Groups in the country for 2001 by the editors of *Site Selection* magazine in the May 2002 issue, based on bringing large-scale corporate expansion projects to the state. In addition, *Site Selection* ranks Kentucky among the top ten states for overall business climate (November 2002) – ahead of all seven of its bordering states. In its Annual Jobs Survey, *Area Development Magazine* (June 2002) credits Kentucky with a broad range of new job creation, not only in manufacturing, but also in financial services and distribution. *Area Development* (August 2002) also notes, "*Technology-based business is encouraged throughout the state by loan pools, R&D assistance, and seed funds.*"

Kentucky's metro areas are also garnering recognition as prime locations for business expansion and entrepreneurial growth. Louisville ranked 15th nationally and 2nd in the Midwest in a list of the top 25 best cities for entrepreneurs and 1st as the best city for small-business growth (*Entrepreneur*/October 2003). Louisville also ranked 2nd and Cincinnati/Northern Kentucky ranked 7th for Logistics Cities in the Midwest as reported by *Expansion Management* magazine (August 2003). Lexington placed among the Top 10 finishers in the Mayor's Cup, also conducted by *Expansion Management* magazine (July 2003). Lexington ranked 7th out of 329 MSAs across the country for best locations to locate a company. The Cincinnati area, which includes Northern Kentucky, ranked 15th and Louisville ranked 22nd. The rankings were based on equal weighing of six studies performed annually by *Expansion Management* on education, health care, quality of life, logistics, knowledge workers, and legislative issues. Finally, in a ranking of the Best Places For Business and Careers, Lexington ranked 14th and Louisville ranked 71st among the 150 largest metro areas (*Forbes* magazine 2003 rankings). The metro areas were ranked based on the cost of doing business, concentration of college graduates, and quality of life factors. The biotechnology industry is also growing in Kentucky, as 42

biotechnology companies were identified in the Bluegrass State in a recent study conducted for the Kentucky Science and Technology Corporation (*Feser and Koo, University of North Carolina/Chapel Hill*: June 2001). The Cincinnati-Hamilton area, which includes Northern Kentucky, ranked 28th among the Top 40 Locations for Biotechnology in the U.S. (*Business Facilities*/November 2003). *Site Selection* (November 2002), reporting on research conducted by Cognetics Corporation, places Kentucky among the top twenty states for entrepreneurs, while noting the rankings of Louisville and Lexington among the top ten large and small metro areas, respectively, for entrepreneurial development.

In addition, with digital deployment now virtually complete anywhere in the state, Kentucky is being noticed by businesses dependent on strong telecommunications. Companies such as Alltech, Commercial Services Group, Cingular Wireless, Citicorp, Healthcare Recoveries, Honeywell International, Image Entry, Interactive Teleservices Corporation, MCI, National Patient Account Services, Senture LLC, and U.S. Bank Home Mortgage have recently announced or located new facilities in Kentucky.

Kentucky has also been the state of choice for company headquarters. Home to over sixty corporate headquarters and regional offices, Kentucky has seen A&W Restaurants, Appalachian Wireless, Commonwealth Brands, Cyberswap, First Commonwealth Mortgage, Galerie Au Chocolat, GE Capital, Genlyte Thomas Group LLC, Gibson Greetings, H.J. Heinz, Omnicare, Republic Airline, Ticona Polymers, Toyota Motor Manufacturing North America Inc., TRICON Global Restaurants, and Xanodyne Pharmacal locate or announce headquarters facilities within its boundaries in the last five years.

Compelling evidence of Kentucky's attractiveness to business is the inclusion of eight of its communities within the top 75 U.S. small towns for corporate expansion, as reported by *Site Selection* (March 2003). Bowling Green, which had earned the #1 ranking in 1998, held the top spot in Kentucky and fifth nationally. Other communities making the top 100 list are Elizabethtown (13), Frankfort (23), Bardstown (31), Franklin (38), Madisonville (38), Campbellsville (75), and Paducah (75). The emergence of such communities as strong competitors for new business was noted by *Site Selection's* (March 2001) state report on Kentucky – “*The ‘second-tier’ communities of the Commonwealth are emerging as key players in supporting and building such industries as steel making, e-commerce distribution, houseboat manufacturing and biomedical research, not to mention the ever-growing network of automotive industry manufacturers and their many tiers of suppliers.*”

Relative Cost of Doing Business

Economists with *Economy.com, Inc.* (formerly *Regional Financial Associates, Inc.*) have concluded that relative business costs are the most important long-term determinant of state economic performance. Several business cost indices were developed to compare the relative cost of doing business in each state, and in the District of Columbia. The overall business cost index includes energy costs, tax burdens, and labor costs. The individual indices were weighted according to historical ability of factors to explain growth, with energy costs weighted 15 percent,

tax burdens 10 percent, and labor costs 75 percent. Kentucky is ranked as the fourth lowest for overall business costs in the nation, with a state index 16.2% less than the national average, and has the lowest overall cost of doing business in the eastern United States. (*North American Business Cost Review*, 10th Edition, December 2003).

Market Access

Kentucky is located in the center of eastern U.S. industrial and consumer markets, with its borders within 600 miles of two-thirds of the nation's population, personal income, and manufacturing business establishments. Kentucky's intermodal freight and passenger transportation systems have reached out to provide safe, efficient and cost-effective access to all points of the globe. Regional markets are also easily served from Kentucky's strategic location, midway between the large Midwestern and growing Southeastern and Gulf export markets. In a joint analysis of state and metropolitan area logistics factors, *Expansion Management* and *Transportation & Distribution* magazines awarded Kentucky the 6th highest overall state ranking for logistics (*Expansion Management*/September 2001).

Kentucky is at the highway crossroads of the Canada to Florida I-75 route, extending from the Great Lakes to the Gulf of Mexico, and the St. Louis to Norfolk I-64 route, which stretches from the Mississippi River to the Atlantic Seaboard. Domestic and international air travel are served by the Delta and Comair hubs which provide non-stop service to Europe and Canada from their location in Northern Kentucky. International flights are also available at the Louisville International Airport at Standiford Field and Lexington's Blue Grass Airport. Air cargo services are provided by the United Parcel Service hub at the Louisville International Airport and the DHL hub in Northern Kentucky, both of which serve global destinations. Several other air freight and parcel providers operate through Kentucky's air system as well, and growth in Kentucky's air transportation industry is extraordinary. In fact, the Cincinnati/Northern Kentucky International Airport is an economic developer itself. As a driving force in the region's economy, the airport employs more than 15,000 people and supports another 54,000 area jobs, according to a 1999 study by the Center for Economic Education, based at the University of Cincinnati. DHL, which has operated its primary North American hub at the airport since 1984, completed a \$220 million expansion in 2003, allowing it to handle more than two million pounds of cargo and air express nightly, doubling its capacity. Comair has commenced a \$25 million expansion project to provide maintenance and training facilities, as well as new office space, at its Northern Kentucky location, while the airport board is implementing construction of a third north-south runway, due to open in late 2005, and the extension of the east-west runway, due for completion in 2004. Finally, the FedEx facility in Boone County, 11 miles from the Greater Cincinnati/Northern Kentucky Airport, will employ more than 80 office and clerical employees and 300 package handlers, while the UPS \$1.1 billion automated sorting hub, referred to earlier, doubles the company's current capacity in Louisville, and became fully operational in 2002.

Kentucky is a rail center for the mainline services of the CSX, Canadian National, and Norfolk Southern railroads, which provide service from the Great Lakes gateways to the Gulf of Mexico and link intermodally with inland and deep-draft ports for export trade. Western

Kentucky is the heart of the nation's inland waterways and riverport system, standing at the junction of the Upper and Lower Mississippi, the Ohio River, and the Tennessee-Tombigbee navigation corridors. *Site Selection* (November 2003) highlights the importance of the waterways transportation system by noting that, “*Snaking along a 981-mile (1,578-km.) corridor from Pittsburgh to Cairo, Ill., the Ohio River provides a vital economic link to the six states it touches: Pennsylvania, Ohio, West Virginia, Kentucky, Indiana and Illinois.*”

By highway, river, rail, or air, Kentucky offers unique advantages for transportation, distribution, and export, and provides new opportunities for capitalizing on North American markets and global trade.

Work Force

Kentucky's work force demonstrates a strong desire to work, and employees develop a close bond with their jobs. Employers that provide normal work conditions, sensitivity to workers' needs, and a reasonable scale of pay and benefits, will find Kentucky workers to be highly productive, loyal, and dedicated to the quality of their work.

Productivity indices generally are not available for industrial workers in the individual states, but a reasonable substitute can be computed from the figures for Gross State Product (GSP) per Wage, which shows the amount of value added by the workforce per dollar in wage, providing a useful measure of workforce productivity. Kentucky's workforce is 5.09 % more productive than the U.S. average, and Kentucky ranks 13th among the 50 states in Gross State Product (GSP) per Wage.

State and local training resources can provide entry-level job training and skills upgrading for virtually any industrial occupation or skill. The Bluegrass State Skills Corporation (BSSC) works in partnership with other employment and job training resources and programs to package a program customized to meet the specific needs of a company. Funds can be provided for sending company trainers out of state for specialized company training. The strength of these programs is demonstrated by the ranking of 8th by the BSSC among all states' worker training programs for their efforts in facilitating customized business and industry training services for new, expanding and existing companies (*Expansion Management*/October 2003).

Low-Cost Utilities

Kentucky enjoys a tremendous competitive advantage in the provision of energy, natural gas, and water supply. Kentucky's electric power costs in the industrial sector ranked the lowest in the nation for the second consecutive year in 2001, based on annual rankings compiled by the *U.S. Energy Information Administration*, which have consistently placed Kentucky among the five lowest cost industrial electric power states since 1990. LG&E Energy, one of Kentucky's partners in economic development, was a Top 10 Utility for 2001 according to *Site Selection* magazine, which tapped LG&E in its annual ranking for success in creating new investment and jobs throughout Kentucky, and the extra services it provides to businesses looking to locate or

expand in Kentucky. For the second time in four years, LG&E Energy led the nation in 2002 in satisfaction among residential electric customers, according to the respected research firm of J.D. Power and Associates. In the survey, released in July 2002, LG&E Energy ranked first in both the nation and the Midwest from a survey that included the nation's 74 largest electric utilities.

The state's large coal reserves and their close proximity to coal-burning utility plants, its direct location on the interstate natural gas pipeline corridor, and an abundant natural water supply derived from the extensive network of rivers, streams, and lakes, keep Kentucky's utility costs among the very lowest in the nation.

Kentucky has led the U. S. in coal production in recent decades, providing an abundant local supply of fuels for the generation of reasonably priced electricity. In fact, Kentucky always ranks among the top three coal producing states in the nation.

Kentucky's natural gas costs in the industrial sector are extremely competitive, particularly within the Midwest and the Southeast regions of the nation. An extensive surface water network of rivers, streams, and lakes, complemented by the ground water supplies that are very pronounced in certain regions of the state, guarantee an ample supply of water for industrial use.

Pro-Business State Government

Kentucky State government has developed some of the most innovative business development programs in the nation. Incentives available to encourage business investments and expansions in Kentucky include a wide range of tax exemptions and financing. *Site Selection's* rankings of Kentucky among the topmost states in job creation for the last several years support Kentucky's position as an attractive state for both new and expanding business. Investments in new and expanded facilities may qualify for income tax credits under the Kentucky Industrial Development Act (KIDA), the Kentucky Rural Economic Development Act (KREDA), the Kentucky Jobs Development Act (KJDA), the Kentucky Economic Opportunity Zone Act (KEOZ) or the Kentucky Industrial Revitalization Act (KIRA). Additional income tax credits for occupational and skills upgrade training costs are available through the Bluegrass State Skills Corporation (BSSC). The Kentucky Economic Development Finance Authority (KEDFA) offers low-interest state loans for non-retail industrial, service industry, agribusiness, and tourism projects. Long-term loans for fixed assets are available for small businesses through the Commonwealth Small Business Development Corporation.

Kentucky is also diligent in its support of technology, research, and knowledge-based businesses. Two KEDFA loan pools are available, one for assisting projects aimed at high-tech or knowledge-based companies, and the other for the creation of technology and research clusters within the Commonwealth. Small and medium-size companies may also be eligible for research and development assistance or seed funds through the Research and Development Voucher Program, the Kentucky Rural Innovation Program, or the Kentucky Commercialization Fund Program, all administered by the Council on Postsecondary Education.

In its 2001 Government Performance Project, *Governing Magazine* (February 2001) conducted a review of state government operations nationwide in the five areas of financial management, human resources, information technology, capital management, and managing for results. Kentucky exceeded the fifty-state average in all categories, while only three states had higher overall grades. The report gave Kentucky particular credit in the areas of financial planning and strategic planning, and lauded its accomplishment in developing the Kentucky Information Highway.

Business costs conducive to economic growth are the result of a continuing effort to reduce or eliminate the tax burden of doing business in Kentucky. In recent years, property tax relief for leased manufacturing machinery, reduced inventory taxes for distribution centers, and lower tax rates for private aircraft have been implemented as a result of statutory tax reform. Kentucky's tax rate on real property has decreased every year since 1979, and a recent cap has been instituted on air carrier sales taxes on jet fuels.

Yet another area in which Kentucky has placed itself among the nation's leaders is in the field of workers' compensation reform. The 1996 Special Legislative Session on Workers' Compensation produced major revisions that have resulted in substantially less cost to business. Significant alterations to the definitions of injury and disability, limitations on the role and compensation of lawyers, and more reliance on objective medical findings have served to produce lower workers' compensation costs. Kentucky has also seen improvement from a 1992 national ranking of 26th lowest state workers' compensation costs to 19th lowest costs in the 2003 ranking, as reported by Actuarial and Technical Solutions, Inc. The change moves Kentucky from a "high cost" to an "average cost" state, placing Kentucky's average workers' compensation costs 11% lower than the national average. The cost of workers' compensation in Kentucky per \$100 of payroll has declined to just \$1.75 in 2003, compared to \$2.68 per \$100 of payroll in 1996 – a 35% reduction.

Quality of Life

Quality of life issues rank high in Kentucky, as evidenced by one of the nation's lowest crime rates, affordable utilities, access to high-speed telecommunications across the state, access to affordable housing, quality public schools, outstanding colleges and universities, and a wealth of cultural and recreational opportunities.

Kentucky has the eighth lowest crime rate in the nation according to estimates in *Crime in the United States*, 2001, a Federal Bureau of Investigations publication. The median value of owner-occupied housing in Kentucky ranked 13th lowest nationally at \$89,078, while the national median in 2000 was \$120,496 (*Morgan Quitno State Rankings 2003*). Each of the Kentucky cities surveyed by ACCRA in its *Cost of Living Index* has a composite index of less than the national average of 100%, while a recent report released by the Kennedy School of Government at Harvard University, *The Federal Budget and the States*, shows Kentucky to have the fifth lowest cost of living in the nation.

In 2001, Kentucky had the lowest residential electricity costs in the nation, while its residential natural gas costs were below the national average, according to the U.S. Department of Energy. An extensive telecommunications network also serves Kentucky. The state's *connectkentucky* initiative is a public-private partnership that is laying the groundwork for increasing broadband deployment and enhancing Kentucky's competitiveness in the networked world. Kentucky's *connectkentucky* partnership was singled out as a "best practice" in the State Broadband Index, which ranks the top 25 states based on how much their initiatives spur or impede broadband deployment and demand. Kentucky ranked in the top 25 for overall broadband deployment strategy and 7th for demand-side promotion. The state is also linked by an extensive analog and digital telecommunications network provided by Kentucky Educational TV (KET). One hundred and sixteen public library systems in Kentucky offer Internet access for patrons.

Kentucky has 28 colleges and universities, 1 junior college, and 29 community colleges and technical colleges. In 2001, 210,313 students (184,534 undergraduates) were enrolled in postsecondary education programs. The University of Kentucky with an enrollment of 24,791 and the University of Louisville with an enrollment of 20,394 are Kentucky's largest public universities.

U.S. News and World Report (2003 rankings) ranked Berea College as the number one Southern comprehensive college (bachelor's). Asbury College in Wilmore, Kentucky was ranked third in the same category. Centre College in Danville and Transylvania University in Lexington were ranked in the top 100 national liberal arts colleges. Murray State University was ranked 4th best Southern public university (master's). The University of Kentucky was ranked in the top 50 law schools and medical schools (primary care) in the nation, and its graduate Public Finance and Budgeting program was rated 5th nationally. Louisville is home to nationally renowned microsurgery and cardiac programs. Jewish Hospital in Louisville is the eighth largest open-heart surgery center, and its transplant program is one of the largest in the nation. The first U.S. hand transplant was performed at Jewish Hospital in Louisville in 1999, and in a landmark experimental operation, the first self-contained artificial heart transplant was performed at Jewish Hospital in 2001. Both the University of Kentucky and the University of Louisville schools of medicine have attracted premier medical researchers in recent years. Six research areas at the University of Kentucky College of Medicine are ranked in the Top 20 for NIH funding among departments at public institutions.

From wood carving and quilting to the symphony, opera and ballet, the arts are woven into the very fabric that is Kentucky. An array of performing arts centers may be enjoyed across the state. Louisville has become a great community for the arts and supports a broad range of high quality performing arts groups. Actors Theatre of Louisville is host to the Humana Festival of New American Plays dubbed "the hottest ticket of the national art scene." Horse Cave Theatre has received national critical acclaim for its productions. The Lexington Children's Theatre, established in 1938, is one of the oldest continuously operating theatres for young people in America. Bowling Green, Lexington, Louisville, northern Kentucky, Owensboro and Paducah all have professional orchestras.

Kentuckians and visitors may explore history, art, science, sport, commerce and culture in a variety of museums across the state. The Kentucky History Center in Frankfort is a state-of-the-art museum and research library. The Speed Art Museum in Louisville is Kentucky's oldest and largest art museum with over 12,000 pieces in its permanent collection. The Headley Whitney Museum in Lexington is nationally unique in its focus on decorative arts. Maysville is the home of the National Underground Railroad Museum. Other notable art collections and exhibitions may be found in Ashland, Bowling Green, Covington, Owensboro, Paducah, and Richmond.

Kentucky is home to many artisans creating both traditional and trend-setting folk arts and crafts. The Kentucky Guild of Artists and Craftsmen hosts one of the top rated national craft fairs in the fall and spring of each year in Berea. Kentucky's thriving arts community includes the new Kentucky Artisan Center in Berea and the Kentucky Appalachian Artisan Center in Hindman. Paducah is home to the Museum of American Quilter's Society which houses the largest collection of contemporary art quilts in the world.

Kentucky leads the nation in developing cultural tourism, based on the personal, authentic experience of a region's culture. U.S. Route 23 through the eastern Kentucky mountains is promoted as the Country Music Highway. Signs along the roads alert travelers to the homeplaces and hometowns of some of country music's best performers. The project is a model for the nation.

Kentucky has the fourth largest number of listings in the National Register of Historic Places. This national ranking demonstrates the value Kentuckians place on their heritage.

Other attractions include the Newport Aquarium and the Gorilla Forest at the Louisville Zoo. The Gorilla Forest is among the five largest of only 50 gorilla exhibits in the nation, placing Louisville among the nation's zoo elite.

Kentucky's regional diversity offers a wide variety of outdoor activities. Boating, golf, fishing, hiking, white-water rafting, and water skiing are among the many recreational opportunities Kentuckians enjoy. The Kentucky State Parks System includes 50 resort parks, recreational parks and historic sites. Mammoth Cave National Park and the Big South Fork River and Recreation Area are in Kentucky.

Kentucky's temperate weather allows for year-round golf and there are many challenging public and private golf courses throughout the Commonwealth.

Kentucky is the heart of the thoroughbred horse industry. Central Kentucky holds the world's greatest concentration of thoroughbred breeding farms. The most famous of Kentucky's racetracks are Keeneland in Lexington and Churchill Downs in Louisville. The premier thoroughbred racing event in the World is the Kentucky Derby, held annually the first Saturday in May at Churchill Downs.



Kentucky's Business Climate

Many Kentuckians are college basketball enthusiasts. Kentucky Wildcat fans and Louisville Cardinal fans are passionate about their teams. The University of Kentucky Wildcats are seven-time NCAA national champions and the University of Louisville Cardinals are two-time NCAA national champions.

Kentucky is home to triple-A and single-A baseball teams, the Louisville Redbirds and the Lexington Legends, respectively. Just minutes from Northern Kentucky, the Cincinnati Reds baseball and Cincinnati Bengals football teams provide major professional sports venues.

The Kentucky Speedway in Sparta, Kentucky hosts NASCAR, ARCA, Indy Racing League and many other racing series.

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